

ID#110206

PUBLISHED ON
JULY 16, 2012

Beleza Natural

BY OMAR BESBES*, NELSON M. FRAIMAN†, MARCELO OLIVARES‡, MARIA J. QUINTEROS**, AND GABRIEL Y. WEINTRAUB***

Introduction

It was early Monday morning, before any employees had arrived at the main Beleza Natural institute.¹ The Brazilian company's four founders—Leila Velez, Heloísa Assis, Jair Conde, and Rogério Assis—were meeting to discuss their business improvement and growth plans, which would be presented to potential investors at the Entrepreneurship and Competitiveness in Latin America (ECLA) program² at Columbia Business School. Beleza Natural was growing at a rapid pace. Its institutes were overbooked on most weekends, which created a lively atmosphere—but also a sense of a missed market opportunity (see Exhibit 1).

For the operational improvement plan, which needed to be implemented over the coming eight months, they were brainstorming a host of measures, including changing store layouts, cross-training, hiring more staff, and raising prices. And even though they had nine months to submit a growth plan, they were also already exploring which other countries would be good fits with the Beleza Natural model, as they considered a global expansion.

History of Beleza Natural

Beleza Natural was a Brazilian chain of beauty institutes, which specialized in products and services for women with curly and wavy hair. The company also had its own factory in Rio de Janeiro where its research and development team worked to improve Beleza Natural's current products and create new ones. All the products used at the institutes were made at the factory. The company also produced shampoos, conditioners, and hair creams to sell to clients as maintenance kits for home use. Beleza Natural products were sold exclusively at the institutes.

Author affiliation

*Assistant Professor, Columbia Business School

†Professor of Professional Practice and Director, W. Edwards Deming Center, Columbia Business School

‡Associate Professor, Columbia Business School

**Staff Associate, Columbia Business School

***Associate Professor, Columbia Business School

Acknowledgements

Medini Singh and Leila Velez provided valuable assistance in the development of this case.

This case was sponsored by Sovereign Bank.

Copyright information

© 2011-2012 by The Trustees of Columbia University in the City of New York. This case was reissued on October 24, 2011, with minor revisions to the text.

Company data has been altered to maintain company confidentiality.

This case cannot be used or reproduced without explicit permission from Columbia CaseWorks. To obtain permission, please visit www.gsb.columbia.edu/caseworks, or e-mail ColumbiaCaseWorks@gsb.columbia.edu

Beleza Natural was founded in Rio de Janeiro in 1993. Leila Velez, Heloísa Assis, Jair Conde, and Rogério Assis had developed a new hair treatment process and business idea. Heloísa Assis had very curly hair and she wanted it to be smoother, shinier, and less full, so she started trying different combinations of hair care products for herself and her husband. After years of trial and error, she hit upon the perfect formula for curly and wavy hair. During that same period, Leila Velez and Rogério Assis worked at a fast-food chain, where they learned about the benefits of efficiency, productivity, and scale. Building on that experience, they developed a system for delivering the hair treatment that Heloísa Assis had created. The process was divided into a series of steps, each performed by employees trained in the particular skills necessary for that stage of the treatment. With those ideas in mind, the four partners opened their first beauty institute, specializing in curly hair. They set out to create a company that, by offering services at lower prices than classical salons charged, would enable less affluent women to have access to professional hair care. Their objective was to increase their clients' self-esteem by using the treatment to bring out the full beauty of their hair.

In 2011 Beleza Natural had over 1,000 employees, more than 60,000 customers per month, and 11 beauty institutes—10 in Rio de Janeiro and one in Salvador de Bahia.³ (See Exhibit 2 for a list of the institutes and their sizes.) Most of its clients were lower-income women with curly hair who came to Beleza Natural for its main service, the super-relaxante treatment. This exclusive treatment used a patented product that was applied from the roots to the ends of a client's hair to make it shinier and softer, form smooth waves, reduce volume, and create greater movement (see Exhibit 3).

Background on Brazil

Brazil is the largest country in Latin America. In 2010 it had a population of more than 190 million, 80 million of whom were black or multiracial.⁴ Its real GDP grew 7.4% in 2010 and was expected to grow about 4.5% in coming years. The country had an emerging middle class, comprising more than 50% of population, and the poverty rate had been falling for several years. Brazil's income inequalities, which had been among the highest in the world, started to decline in 2000; in 2010, the country's Gini Index⁵ was 51.8%. (See Exhibits 4 and 5).

Brazil had strict labor laws, including regulations concerning time off and mandated holidays (including Sundays). All workers had the right to take 30 vacation days annually and to receive a year-end bonus equivalent to one month's salary. In addition, employers were required to reimburse staff for the cost of transportation to and from work and provide one meal a day.

Hair Care Sector

Going to the hairdresser was deeply rooted in the everyday culture of Latin America. A trip to the beauty parlor was a social and cultural event, almost as important as the result of the hair treatment itself. From 2004 to 2009, permanent and relaxant (P&R) sales grew significantly in Latin America. In 2008 the P&R market accounted for US\$1.2 billion

worldwide, of which Latin America had the highest per capita consumption, accounting for about US\$450 million. Even in times of recession, the majority of women stayed loyal to their hairdresser rather than using cheaper at-home products, because visits to the hairdresser were an integral aspect of women's lives, not just part of a simple beauty routine.⁶

HAIR CARE INDUSTRY IN BRAZIL

In 2008 Brazil ranked third worldwide in the cosmetics and toiletries industry, with sales of about US\$29 billion. The hair care sector represented 25% of those sales (see Exhibits 6 and 7). Within that sector, Shampoos and conditioners were the largest categories within the hair care sector, accounting for 65% of total sales. Salon hair care, a very fragmented and informal sector, was the smallest category. Brazilian women had little brand loyalty for hair care products, shifting frequently between them. Exhibit 8 shows hair care sector sales in Brazil by subsector from 2004 to 2009.

Due primarily to the population's ethnic mix, 65% of Brazilians had curly or wavy hair, which explained the predominance of conditioners in the hair care sector. Brazilian women were willing to pay for specialty conditioners, creams, masks, and other products that add definition to hair and make it smooth, shiny and healthy.

In 2010 Beleza Natural had sales of about US\$65 million (see Exhibit 9 for the company's gross revenues from 2001 to 2011). Those sales included super-relaxante treatments and other services (such as cutting, styling, coloring, manicuring, and pedicuring), as well as Beleza Natural hair care products. Nearly 90% of the company's clients were repeat customers.

Beleza Natural

Clients came to Beleza Natural primarily for the super-relaxante treatment. The company's other services represented 7% of its revenues. On average, Beleza Natural locations were open 312 days per year. The institutes opened at 8 a.m., Monday through Saturday, and the last customers of the day were served at 8 p.m. (Beleza Natural would stop accepting customers once they estimated that the last accepted customer would not be served until 8 p.m.). From Monday to Thursday the number of customers was more or less constant, but over the weekend that number increased dramatically—by 35% and 75% on Fridays and Saturdays, respectively.

LABOR TRAINING

In an attempt to maximize efficiency and uniformity of service at the institutes, Beleza Natural created its own staff development center, the University of Beleza Natural. Hairdressers, marketing assistants, administrators, salespeople, supervisors, and managers all received training there.

There were two types of training for hairdressers who gave the super-relaxante treatment. The first, which took 30 days, was for the *auxiliar de cabeleireira* (assistant hairdresser), who learned how to perform the division process—separating hair into small triangular sections—and to wash and style hair. The second type of training, which took 35 days, was

for the *consultora de beleza* (Beleza Natural consultant), the professional who performed the super-relaxante treatment itself. Both the auxiliar de cabeleira and the consultora de beleza had to pass a final exam, and new employees were also closely monitored by their manager for three months. However, Velez observed that although all employees received Beleza Natural training, the performance of the auxiliar–consultora teams varied. Some were more experienced or faster than others, which directly impacted productivity and the number of customers who could be served.

Employees who gave the super-relaxante treatment or provided other beauty care services earned R\$12⁷ per hour. There were two six-hour shifts per day. Each institute also had three people in charge of warehouse stock and two people per shift in charge of cleaning, all of whom earned R\$600 per month. In addition, three people per shift worked at the sales counter at each institute; they earned R\$10 per hour. The entire staff received carfare and lunch—which cost R\$12 per day per employee—and a year-end bonus; all those who worked directly with customers (including sales staff) received R\$950, and warehouse and cleaning employees received R\$600.

THE PROCESS

When a client entered an institute, she took a number and proceeded to the front desk (see Exhibit 10 for an example of an institute layout). The receptionist then welcomed her, asked if she had been to a Beleza Natural institute before, and processed her payment; the super-relaxante treatment cost R\$65. Taking the client's ticket and payment took two minutes.

Before proceeding with the super-relaxante treatment, new customers (who represented 10% of all clients) had to have a hair evaluation given by an employee trained in that procedure. When a client's hair was too damaged from a previous coloring treatment, she could not begin the super-relaxante treatment immediately. Instead, she had to have a hair recovery treatment at the hydration station and then return to the institute in a month, after having used Beleza Natural products at home during that period. Ninety percent of those who could not have the super-relaxante treatment right away chose to have the hair recovery treatment and then wait as required. The employee who performed the hair evaluation also explained the whole process to the client and told her about all the products that were available for home use. The evaluation usually took 10 to 15 minutes.

Next, an employee checked to see that the client had made her payment before entering the salon section. Then the client proceeded to the first step of the super-relaxante treatment, the division process. Depending on the length of the client's hair and how tangled it was, the division process took from 10 to 15 minutes. Next the client was given the super-relaxante treatment itself; the patented Beleza Natural products were applied, creating smooth hair and well-defined curls. The super-relaxante process took 40 minutes on average, but it could take as little as 25 minutes or as much as an hour, depending on the client's hair type and the consultora de beleza's skills. After a client left the super-relaxante station, she went to the hydration station to have her hair shampooed and conditioned, which took an average of eight minutes per client.

Last of all, the client had her hair dried and styled, which could include having it cut and/or colored. Twenty-five percent of clients had their hair cut, which took an average of 10 minutes. Coloring took an average of 45 minutes, although the hairdresser spent only 15 minutes with the customer, who then waited 30 minutes more for the dye to set. Only 10% of customers chose to have their hair colored. While the client had her hair dried and styled, which took 10 minutes on average, the auxiliary also told her how to comb her hair at home.

Once the treatment was finished, customers could buy monthly maintenance products at the sales counter, located right next to the styling station. Sixty-five percent of customers who received the super-relaxante treatment bought beauty care products at the institute before leaving. The average basket value of the products was R\$40, with a margin of 50%.

Exhibit 11 shows the number of employees at each station of the super-relaxante process; Exhibit 12 shows the observed demand for each institute. On average, the products used during the super-relaxante treatment cost R\$4 per customer; the institutes received supplies of products once a week. Exhibit 13 shows other costs related to the operation of the institutes.

Velez commented, “Many different factors had to be dealt with as we worked to streamline our process so that we could accommodate more customers.”⁸ [Click here to watch Velez discuss operations management issues in her growing company.](#)

The conjunction of weekly and seasonal patterns of demand along with Brazil’s inflexible labor laws made implementing the necessary operational changes a challenge: if Beleza hired additional staff to meet the high demand on weekends, the company would end up having to pay salaries to employees who would be idle for most of the week.

“And even though not all of our employees perform equally well,” she said, “they are all highly skilled—particularly the consultoras de beleza, who receive special training in the super-relaxante treatment. We need to bear in mind that hiring additional staff means having to invest in more training.”

Workforce management was only one among a host of potential issues identified. While Velez and the rest of the management team well understood the issues and had ideas for potential fixes, they did not necessarily agree on where they should start. What impact would improvement measures have on Beleza Natural’s operations and how should the team prioritize these measures?

[Click here to watch Velez discuss expansion plans at Beleza Natural.](#)

Exhibits

Exhibit 1

A Typical Beleza Natural Institute



Exhibit 1 (continued)



Source: Company photos.

Exhibit 2

Beleza Natural Institutes

Institute	Size (m2)	# Stations
Alcantara	618	40
Campo Grande	950	78
Caxias	970	73
Ipanema	976	75
Japarepagua	490	24
Liberdade - Salvador	1360	104
Madureira	574	49
Niterói	672	54
Nova Iguaçu	930	36
Tijuca	891	50
Vitoria	390	36

Source: ECLA presentation by Beleza Natural, New York City, January 11, 2011.

Note: # Stations refers to place where a consultora de beleza or an auxiliar de cabeleireira performs her task in the super-relaxante process.

Exhibit 3

Super-Relaxante Treatment Results



Source: Company publicity materials.

Exhibit 4

Gini Index Comparison

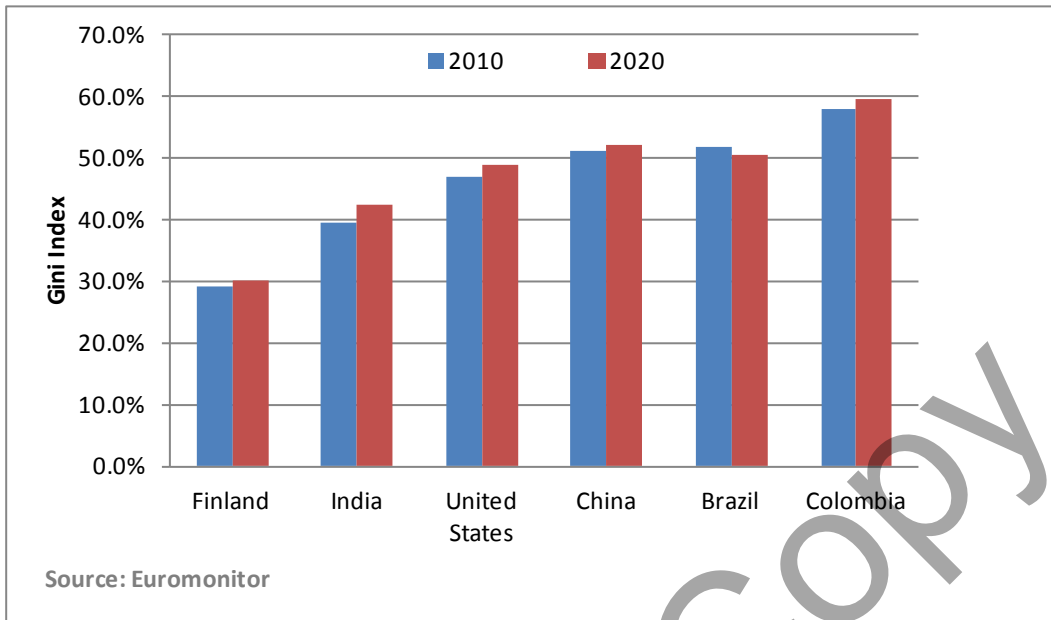


Exhibit 5

Social Class Composition in Brazil (in thousands)

Categories	2005	2006	2007	2008	2009	2010
Social Class A	11,016	11,233	11,469	11,694	11,877	12,062
Social Class B	6,635	6,813	7,048	7,267	7,402	7,544
Social Class C	15,043	15,465	16,027	16,551	16,864	17,203
Social Class D	39,869	40,823	41,985	43,071	43,847	44,698
Social Class E	58,849	59,228	59,116	59,126	59,794	60,366

Note: Social Class A includes individuals with a gross income greater than 200% of the average gross income of all individuals aged 15+. The number of people in the class is based on the de Jure definition of population, which counts all individuals in a geographical area on the basis of their place of residence. Annual gross income refers to income before taxes, including earnings from employment, investments, benefits, and remittances, as well as to social security contributions from all sources.

Social Class B includes individuals with a gross income between 150% and 200% of the average gross income of all individuals aged 15+. The number of people in the class is based on the de Jure definition of population, which counts all individuals in a geographical area on the basis of their place of residence. Annual gross income refers to income before taxes, including earnings from employment, investments, benefits and remittances, as well as to social security contributions from all sources.

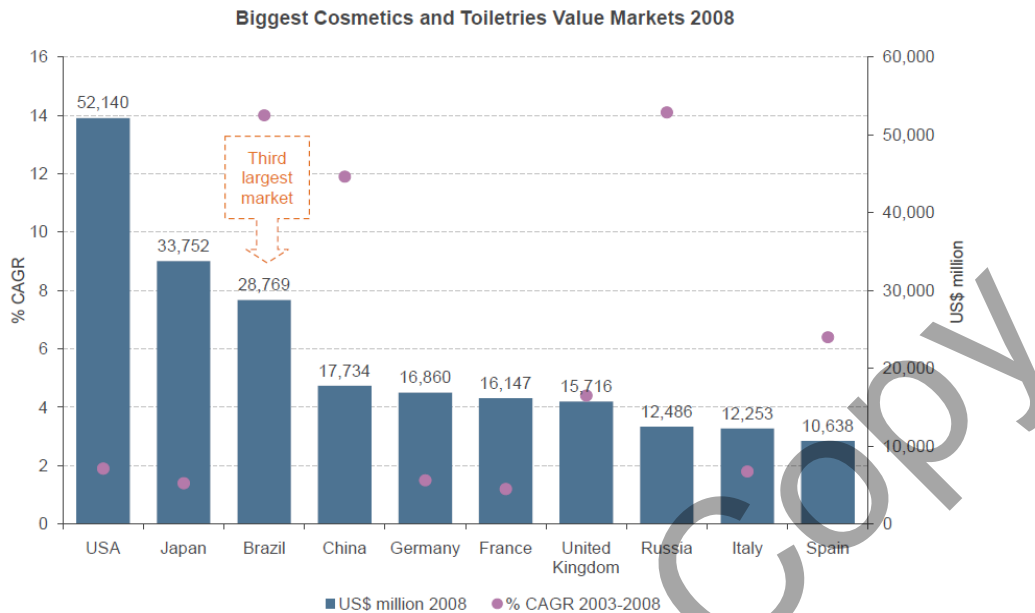
Social Class C includes individuals with a gross income between 100% and 150% of the average gross income of all individuals aged 15+. The number of people in the class is based on the de Jure definition of population, which counts all individuals in a geographical area on the basis of their place of residence. Annual gross income refers to income before taxes, including earnings from employment, investments, benefits, and remittances, as well as to social security contributions from all sources.

Social Class D includes individuals with a gross income between 50% and 100% of the average gross income of all individuals aged 15+. The number of people in the class is based on the de Jure definition of population, which counts all individuals in a geographical area on the basis of the place of their residence. Annual gross income refers to income before taxes, including earnings from employment, investments, benefits, and remittances, as well as to social security contributions from all sources.

Social Class E includes individuals with a gross income less than 50% of the average gross income of all individuals aged 15+. The number of people in the class is based on the de Jure definition of population, which counts all individuals in a geographical area on the basis of their place of residence. Annual gross income refers to income before taxes, including earnings from employment, investments, benefits, and remittances, as well as to social security contributions from all sources.

Exhibit 6

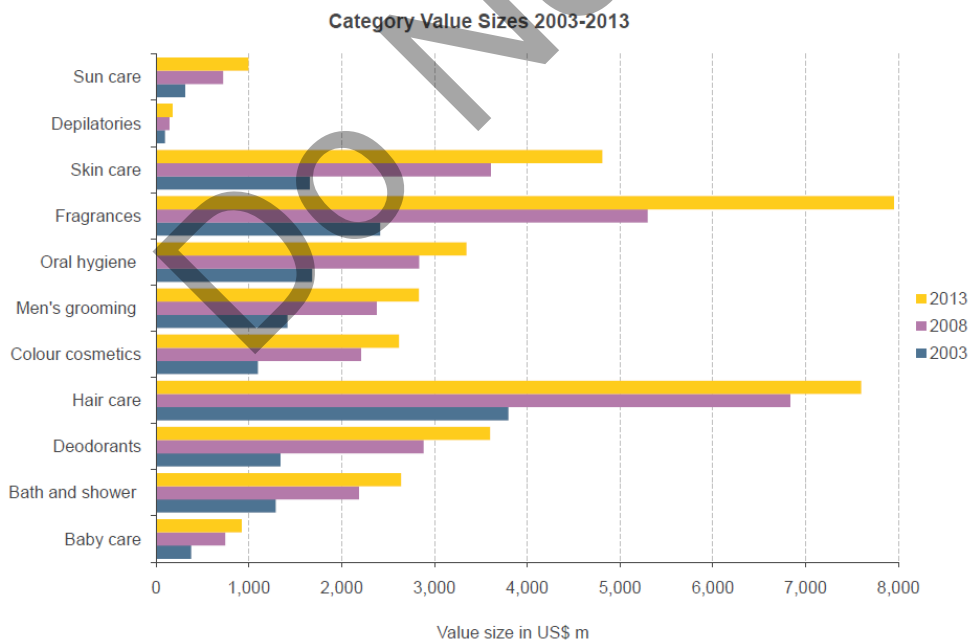
Cosmetics and Toiletry Market



Source: "Brazil: Key Player in Global Beauty and Personal Care Growth," Euromonitor International.

Exhibit 7

Cosmetics and Toiletry Market in Brazil



Source: "Brazil: Key Player in Global Beauty and Personal Care Growth," Euromonitor International.

Exhibit 8

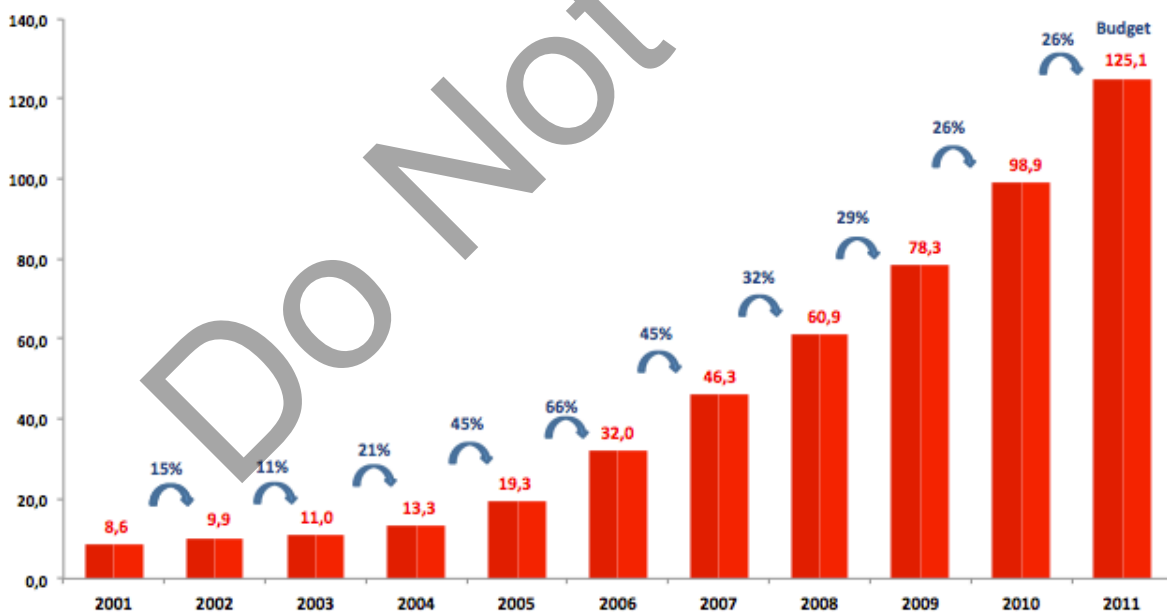
Hair Care Sales by Subsector in Brazil

Sales of Hair Care by Subsector: Value 2004-2009						
R\$ million	2004	2005	2006	2007	2008	2009
2-in-1 Products	57.7	54.8	47.9	46.6	62.0	86.0
Colourants	2,242.1	2,540.3	2,957.7	3,313.8	2,717.3	3,157.7
Conditioners	2,953.1	3,499.3	3,742.6	4,190.8	4,523.8	4,820.9
Perms and Relaxants	553.3	544.6	672.8	611.2	689.4	710.1
Salon Hair Care	30.2	23.4	19.8	19.3	18.9	20.1
Shampoos	2,069.6	2,258.8	2,645.9	3,067.8	3,204.3	3,398.1
- Medicated Shampoos	47.9	52.1	61.8	66.6	72.5	78.3
- Standard Shampoos	2,021.6	2,206.7	2,584.1	3,001.1	3,131.9	3,319.8
Styling Agents	180.4	185.3	237.8	257.7	333.3	292.0
Hair Care	8,086.4	9,106.5	10,324.5	11,507.1	11,549.0	12,484.8

Source: Euromonitor International estimates.

Exhibit 9

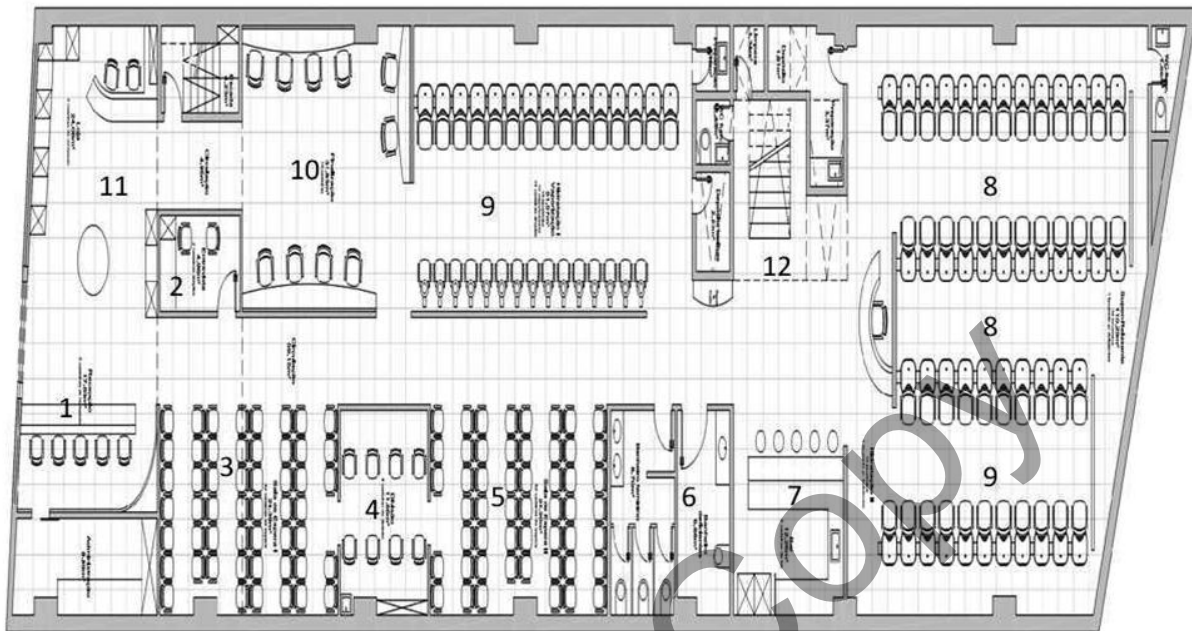
Beleza Natural Gross Income 2001 to 2011 (Million Reals)



Source: ECLA presentation by Beleza Natural, New York City, January 11, 2011.

Exhibit 10

Example of Institute Layout



- | | |
|-------------------|-------------------------------------|
| 1 Reception | 7 Bar |
| 2 Evaluation | 8 Super-relaxante |
| 3 Waiting room I | 9 Hydration |
| 4 Division | 10 Hair style |
| 5 Waiting room II | 11 Store |
| 6 Bathrooms | 12 Deposit and material preparation |

Source: ECLA presentation by Beleza Natural, New York City, January 11, 2011.

Exhibit 11

Staff Performing Super-Relaxante Treatment

Institute	# workers at each station				
	Reception	Division	Super Relaxing	Hydration	Hairstyling
Alcantara	1	4	10	3	5
Campo Grande	2	6	14	5	7
Caxias	2	7	16	6	9
Ipanema	2	3	10	2	4
Japarepagua	1	3	10	3	4
Liberdade-Salvador	1	3	14	2	5
Madureira	2	8	18	4	9
Niterói	2	6	14	3	6
Nova Iguacu	2	5	12	3	6
Tijuca	2	5	14	3	6
Vitoria	1	4	12	3	6

Source: ECLA presentation by Beleza Natural, New York City, January 11, 2011.

Exhibit 12

Observed Demand

Institute	Clients per month	Clients per week	Clients Mon-Thu	Clients Fri	Clients Sat
Alcantara	5,000	1,167	164	223	288
Campo Grande	7,000	1,634	230	311	403
Caxias	7,700	1,797	253	342	443
Ipanema	3,500	816	115	155	201
Japarepagua	3,500	816	115	155	201
Liberdade-Salvador	4,100	958	135	182	236
Madureira	8,900	2,081	293	396	513
Niteroi	6,400	1,492	210	284	368
Nova Iguacu	6,000	1,399	197	266	345
Tijuca	6,200	1,448	204	275	357
Vitoria	5,150	1,200	169	228	296

Source: ECLA presentation by Beleza Natural, New York City, January 11, 2011.

Note: Mon-Thu reflects daily totals.

Exhibit 13

Beleza Natural Operating Costs

	Cost (R%000')
Rent	6,000
Electricity, gas and water	70
Depreciation	1,500
General management	7,000
Marketing	200

Source: ECLA presentation by Beleza Natural, New York City, January 11, 2011.

Endnotes

¹ Beleza Natural institutes are beauty salons.

² The Columbia Business School ECLA program was designed to help Latin American entrepreneurs gain “the skills, tools, and global mindset to prepare for today’s changing global environment, create a sustainable competitive advantage, and expand business impact.” (“Entrepreneurship and Competitiveness in Latin American (ECLA),” Columbia University website, <http://www4.gsb.columbia.edu/chazen/initiatives/ecla>.)

³ All company data is taken from an ECLA presentation by Beleza Natural, New York City, January 11, 2011.

⁴ Euromonitor reports are the source for all country and industry data cited in this case.

⁵ A Gini index rating of 0% represents perfect equality; a rating of 100% represents absolute inequality.

⁶ “Changing Habits in Hair Care—March 2010,” Euromonitor International.

⁷ US\$1=R\$1.67 (December 31, 2010).

⁸ All statements by Ms. Velez are cited from April 8, 2011, phone interview.